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»» Should the lingering weakness of global trade be a cause for concern?

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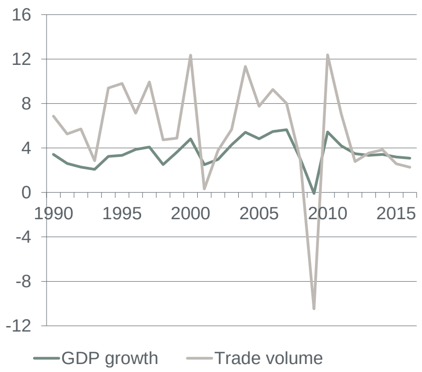
Since 2010 global trade has followed a noticeably different pattern than in the years before. What are the causes? Is the weakness of global trade a harbinger of a new global economic crisis? And what does it mean in light of the current debate over the benefits of globalisation and initiatives for further trade liberalisation?

The old formula "by a factor of two" no longer applies

For a long time, the rule of thumb was that global trade of goods and services grew around twice as fast as global GDP (with the exception of crisis years). This was understood as an expression of globalisation: the global division of labour was increasing and cross-border value chains were growing. This rule of thumb has evidently ceased to apply since 2010, as global trade has since been growing only at the same (moderate / disappointing) pace of global production (see figure). As the observation period has now been more than five years, this cannot be merely a temporary special effect but must be due to deeper underlying causes.

Figure: Global GDP and global trade
(real variation in per cent)



Source: IMF

Main cause: weak investment

Recent studies, particularly by the IMF, and also by the OECD and ECB, see widespread investment weakness as the main cause. This finding is initially surprising because, on the global average, the aggregate investment rate as a percentage of GDP has not declined but is quite steady. However, the investment rate also incorporates non-traded and minimally traded goods, i.e. buildings, inventory changes and intangible assets. The IMF sees a decline in cross-border trade in capital goods such as plant, machinery, transport equipment etc.

At regional level, the investment weakness is a reflection of economic problems in places such as the euro area and other advanced economies. The crisis in the euro area is particularly relevant as this region represents 15 % of global GDP but 25 % of global trade.

In the past years, investment weakness could also be observed in many emerging markets. The IMF regards China as particularly influential, although its economic performance and, with it, demand for imports has cooled down significantly since 2010. Yet the changing growth model in China is influencing global trade with its shift towards more consumption and services and away from the earlier growth drivers of investment and exports.

Another hypothesis being debated to explain the trade weakness is that the intensification of value chain links observed for many years has come to a standstill (stagnation of globalisation). The complexity of the material and lack of data currently make empirical research difficult. Although this hypothesis appears to have a certain degree of explanatory power, it is likely lower than the investment weakness.

The weakness in global trade since 2010 is therefore primarily to be seen as a reflection of the disappointing performance of the global economy and changes in China. The studies mentioned do not confirm the inverse correlation also being debated – that weak global trade is a forerunner of a new global crisis. Still, there are worrying aspects to this issue.

Protectionism is not yet imminent but a potential danger

Increased protectionism could also be a conceivable cause of the weakness in global trade. By and large, this cannot yet be observed, fortunately. Multilateral institutions such as the WTO and UNCTAD as well as the organisation Global Trade Alert have documented many new cases of trade restrictions in the past years, but at the same time previous restrictions have been lifted. Even if an increase can be ascertained on balance, it cannot yet be interpreted as a significant increase in protectionism.

Nevertheless, trade policy makers should be worried. First, global trade liberalisation initiatives are making no headway and the Doha Round of WTO negotiations conducted since 2001 is at a stalemate. Second, in many places popular sentiment is hardening against open borders for goods, capital and labour mobility. The fact that the international division of labour is a source of prosperity and development is being overlooked. What is needed is a differentiated argumentation: maintain regulation and safeguard important standards, including social policy to cushion the blow of economic adjustments, but dismantle pointless restrictions for the good of all stakeholders. Much potential remains in these areas. From this perspective, revitalising global trade would be worthwhile. Then we will see if the old "factor of two" formula can be reached again. ■